

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hillsdale Community Schools	County Hillsdale
Fiscal Year End June 30, 2006	Opinion Date October 2, 2006	Date Audit Report Submitted to State October 17, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Osbourne, March, Condon & Co., P.C.		Telephone Number 517-439-9331	
Street Address 184 W. Carleton Road		City Hillsdale	State MI
		Zip 49242	
Authorizing CPA Signature <i>Donna J. Hecht</i>	Printed Name Donna J. Hecht		License Number 1101025151

HILLSDALE COMMUNITY SCHOOLS
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2006

HILLSDALE COMMUNITY SCHOOLS

HILLSDALE, MICHIGAN

BOARD OF EDUCATION

JUNE 30, 2006

Bill Smith	President
Robert Batt	Vice-President
William Briggs	Secretary
Laurie Brandes	Treasurer
LeAnne Rumler	Trustee
Jim Bowen	Trustee
Mark Nussbaum	Trustee

HILLSDALE COMMUNITY SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools, Hillsdale, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of the audit and of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and page 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsdale Community School's basic financial statements. The additional information on pages 22 - 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 24 - 26 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Hillsdale Community Schools. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Hillsdale, Michigan
October 2, 2006

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

This section of Hillsdale Community School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

This annual report consists of a series of financial statements and notes. These statements are organized so the reader can understand Hillsdale Community Schools financially as a whole. The district wide financial statements provide information about the activities of the whole school district presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements look at the School District's operations in more detail than the district wide financial statements by providing information about the district's most significant funds.

DISTRICT WIDE FINANCIAL STATEMENTS

The District wide financial statements are full accrual basis statements, which is similar to the accounting used by most private-sector companies. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

FUND FINANCIAL STATEMENTS

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds and the School Service Funds which are comprised of: Food Service and Athletic Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

SUMMARY OF NET ASSETS

The following summarizes the net assets at fiscal years ended June 30, 2006 and 2005.

	2006	2005
Assets		
Current assets	<u>\$ 5,142,483</u>	<u>\$ 4,899,147</u>
Capital assets	\$ 20,193,478	\$ 19,351,602
Less: accumulated depreciation	<u>(10,250,491)</u>	<u>(9,484,872)</u>
Capital assets, net book value	<u>\$ 9,942,987</u>	<u>\$ 9,866,730</u>
Total Assets	<u>\$ 15,085,470</u>	<u>\$ 14,765,877</u>
Liabilities		
Current liabilities	<u>\$ 4,922,093</u>	<u>\$ 4,691,391</u>
Long-term liabilities	<u>\$ 3,485,572</u>	<u>\$ 3,769,092</u>
Total liabilities	<u>\$ 8,407,665</u>	<u>\$ 8,460,486</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 6,276,285	\$ 5,812,776
Restricted for capital projects		648,380
Restricted for debt service	192,150	156,529
Unrestricted (deficit)	<u>209,370</u>	<u>(312,294)</u>
Net Assets	<u>\$ 6,677,805</u>	<u>\$ 6,305,391</u>
Total Liabilities and Net Assets	<u>\$ 15,085,470</u>	<u>\$ 14,765,877</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

ANALYSIS OF FINANCIAL POSITION

During fiscal year ended June 30, 2006, the District's net assets increased by \$372,414 to \$6,677,805. The significant factors affecting net assets during the year are: High school - security system, remodeling of computer lab, score boards, vestibule doors west end of building, sprinkler system baseball field; Davis Middle School - locker room tile; Mauck Elementary - electrical update; Gier Elementary - replaced gym floor. These projects were finished with the Building and Site Funds. The security system used the balance of the Capital Project Fund. The district purchased two school buses and a floor scrubber for Gier Elementary.

General Fund Operations

The District's revenues for General Fund operations exceeded expenditures by \$199,103 for fiscal year ended June 30, 2006. See the section entitled General Fund Budget and Actual.

Debt – Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	PRINCIPAL BALANCE June 30, 2005	ADDITIONS	PRINCIPAL PAYMENTS/ ADJUSTMENTS	PRINCIPAL BALANCE June 30, 2006
Bonds	\$ 3,874,976	\$	\$ 429,469	\$ 3,445,507
Bus Notes	128,001	132,024	62,880	197,145
Capital Leases	51,027	6,900	33,877	24,050
Early Retirement Incentive		314,534		314,534
	<u>\$ 4,054,004</u>	<u>\$ 453,458</u>	<u>\$ 526,226</u>	<u>\$ 3,981,236</u>

Net Investment in Capital Assets

The District's net investment in capital assets increased during the fiscal year. This can be summarized as follows:

	BALANCE June 30, 2005	ADDITIONS	DELETIONS	BALANCE June 30, 2006
Capital Assets	\$ 19,351,602	\$ 880,361	\$ 45,385	\$ 20,186,578
Less: Accumulated depreciation	<u>(9,484,872)</u>	<u>(811,004)</u>	<u>(45,385)</u>	<u>(10,250,491)</u>
	<u>\$ 9,866,730</u>	<u>\$ 69,357</u>	<u>\$ 0</u>	<u>\$ 9,936,087</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

RESULTS OF OPERATIONS

The following is the District wide results of operations for the fiscal year ended June 30, 2006 and 2005:

	June 30, 2006	June 30, 2005
REVENUE		
General Revenue:		
Property taxes	\$ 3,479,248	\$ 3,391,329
State foundation allowance	9,980,435	9,984,050
Other	<u>164,457</u>	<u>157,833</u>
Total General Revenue	<u>\$ 13,624,140</u>	<u>\$ 13,533,212</u>
Operating Grants:		
Federal	\$ 998,663	\$ 871,277
State of Michigan	1,150,273	1,112,258
Other operating grants	<u>38,775</u>	<u></u>
Total Operating Grants	<u>\$ 2,187,711</u>	<u>\$ 1,983,535</u>
Charges for Services:		
Food Service	\$ 308,846	\$ 308,037
Other charges for service	<u>394,211</u>	<u>453,107</u>
Total Charges for Services	<u>\$ 703,057</u>	<u>\$ 761,144</u>
TOTAL REVENUE	<u>\$ 16,514,908</u>	<u>\$ 16,277,891</u>
EXPENSES		
Instruction and instructional support	\$ 11,502,844	\$ 11,202,812
Supporting services	2,842,562	2,677,146
Food Services	765,977	711,865
Athletics	361,542	363,262
Interest on long-term debt	145,333	156,621
Depreciation (unallocated)	<u>811,004</u>	<u>723,776</u>
TOTAL EXPENSES	<u>\$ 16,429,262</u>	<u>\$ 15,835,482</u>
SPECIAL ITEMS		
Proceeds from sale of property	\$ 601,302	\$
Loss on disposal of asset		(94,500)
Termination benefits expense	<u>(314,534)</u>	<u></u>
TOTAL SPECIAL ITEMS	<u>\$ 286,768</u>	<u>\$ (94,500)</u>
INCREASE IN NET ASSETS	\$ 372,414	\$ 347,909
NET ASSETS – BEGINNING	<u>6,305,391</u>	<u>5,957,482</u>
NET ASSETS – ENDING	<u>\$ 6,677,805</u>	<u>\$ 6,305,391</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

1. State of Michigan State Aid Act per student foundation allowance .
2. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count.
3. The District's non-homestead property tax levy.

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Hillsdale Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 1,861 students. The District's enrollment decreased from the prior school year's student count. The following summarizes fall student enrollments in the past seven years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	1861	(39)
2004-2005	1900	(39)
2003-2004	1939	(29)
2002-2003	1968	6
2001-2002	1962	54
2000-2001	1908	(73)
1999-2000	1981	(49)

PROPERTY TAXES LEVIED FOR GENERAL OPERATIONS

(General Fund Non-Homestead Taxes)

The District levies 18.0000 mills of property taxes for General Fund operations on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of prior year's consumer price index increase or five percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$2,257,122. The District's general operating non-homestead property tax levy increased by 2.60 percent over the prior year.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

Debt Fund Property Tax Levy

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties; homestead and non-homestead. For 2005-2006, the District's debt tax levy was based on 1.85 mills that generated revenue of \$587,405. The debt levy of 1.85 mills is .21 mills less than the Board of Education approved levy of 2.06 mills.

Building and Site Sinking Fund Tax Levy

The District's sinking fund levy, which is used towards school buildings and site improvements, is based on the taxable valuation of all properties; homestead and non-homestead. For 2005-2006, the District's sinking fund tax levy was based on 2.000 mills that generated revenue of \$634,721.

Food Sales to Students and Adults

The District's food and milk sales to students and adults increased from the prior school year by approximately \$1,336 to \$289,079. In addition, there was an increase in revenues (1.8%) from the a-la-carte menu. The total number of meals served per day up 45 meals compared to the 2004-05 school year.

GENERAL FUND BUDGET AND ACTUAL REVENUES AND EXPENDITURES

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

During the course of the year, the School District revises its budget as changes in activity occur. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule reporting the School District's original and final budget amounts compared to actual for the General Operating Fund are included as required supplemental information in the financial statements.

Original versus Final Budget

	Original Budget	Final Budget	Change
Total Revenues and transfers	<u>\$ 14,716,367</u>	<u>\$ 15,098,083</u>	<u>\$ 381,716</u>
Total Expenditures and transfers	<u>\$ 14,722,395</u>	<u>\$ 15,038,042</u>	<u>\$ 315,647</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

GENERAL FUND BUDGET AND ACTUAL REVENUES AND EXPENDITURES (CONTINUED)

The final revenue budget reflects the following changes from the original budget:

- Adjustments were made with the decrease of local tax revenue that was not collected
- The District increased interest earned on investments by \$40,500
- The State revenue decreased due to FTE adjustments with student count
- Increase in funding for the Michigan School Readiness Program
- Decreased Transportation revenue \$21,887 due to no Vocational run
- Increased Federal grants by \$23,311
- Reduced HCISD Vocational CTE Programs by \$29,246 due to the less tax collection
- Reduced contribution from Food Service
- Adjusted the sale of property at Transportation Center

The final expenditure budget reflects the following changes from original budget:

- The District adjusted the following staff:
 - Elementary teacher on maternity leave
 - Added a First and Fourth grade section
 - Sixth grade teacher on medical leave, replaced with teacher on a term contract
 - Added an At-Risk teacher at the HS
 - Added a half day section of Michigan School Readiness Program at Mauck
 - Resignation of Alternative Education teacher, replaced with teacher on term contract
- The HEA signed a contract on October 17, 2005
- The HESPA signed a contract on October 17, 2005
- Purchase of two school buses
- Lease of floor scrubber for Gier Elementary
- Accrued unemployment liability for the year
- Increased funding to cover natural gas and electricity, along with bus fuel costs

Final Budget versus Actual

	Final Budget	Actual	Difference
Total Revenues and transfers	<u>\$ 15,098,083</u>	<u>\$ 15,034,963</u>	<u>\$ (63,120)</u>
Total Expenditures and transfers	<u>\$ 15,038,042</u>	<u>\$ 14,835,860</u>	<u>\$ (202,182)</u>

Actual expenditures were less than the final budget resulting from adjustments and less spending made by the School District.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2006

GENERAL FUND BUDGET AND ACTUAL REVENUES AND EXPENDITURES (CONCLUDED)

Following is a six-year history of General Fund revenues and expenditures:

<u>FISCAL YEAR</u>	<u>REVENUES</u>	<u>% INCREASE (DECREASE) FROM PRIOR YEAR</u>
2005 - 2006	\$15,034,963	5.0
2004 - 2005	14,320,362	1.5
2003 - 2004	14,107,779	(3.7)
2002 - 2003	14,650,385	2.1
2001 - 2002	14,344,458	8.2
2000 - 2001	13,172,381	2.2

<u>FISCAL YEAR</u>	<u>EXPENDITURES</u>	<u>% INCREASE (DECREASE) FROM PRIOR YEAR</u>
2005 - 2006	\$ 14,835,860	3.9
2004 - 2005	14,281,329	(.95)
2003 - 2004	14,418,548	.1
2002 - 2003	14,398,250	5.7
2001 - 2002	13,575,065	10.6
2000 - 2001	12,133,313	(1.0)

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department; 30 South Norwood Avenue; Hillsdale, Michigan 49242.

HILLSDALE COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	TOTAL GOVERNMENTAL FUNDS
ASSETS	
Current Assets	
Cash and deposits	\$ 2,860,653
Investments	24,070
Accounts receivable	115,512
Prepaid expenses	33,153
Due from other governmental units	2,097,251
Inventory	11,844
	<hr/>
Total Current Assets	\$ 5,142,483
Noncurrent Assets	
Capital assets	\$ 20,193,478
Less: accumulated depreciation	10,250,491
	<hr/>
Total Noncurrent Assets	\$ 9,942,987
	<hr/>
TOTAL ASSETS	\$ 15,085,470
	<hr/> <hr/>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 785,834
Note payable - tax anticipation	2,400,000
Accrued salaries and payroll taxes	886,417
Deferred revenue	34,607
Accrued interest	111,301
Long-term debt, current portion	703,934
	<hr/>
Total Current Liabilities	\$ 4,922,093
Noncurrent Liabilities	
Long-term debt	\$ 3,981,236
Compensated absences	208,270
Less: current portion of long-term debt	(703,934)
	<hr/>
Total Noncurrent Liabilities	\$ 3,485,572
	<hr/>
TOTAL LIABILITIES	\$ 8,407,665
	<hr/> <hr/>
Net Assets	
Invested in capital assets, net of related debt	\$ 6,276,285
Restricted	192,150
Unrestricted	209,370
	<hr/>
TOTAL NET ASSETS	\$ 6,677,805
	<hr/> <hr/>
TOTAL NET ASSETS AND LIABILITIES	\$ 15,085,470
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

		PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS	ACTIVITIES
	EXPENSES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
GOVERNMENTAL ACTIVITIES				
Instruction:				
Basic instruction	\$ 7,549,180	\$ 166,466	\$ 212,820	\$ (7,169,894)
Added needs	2,191,759		1,467,653	(724,106)
Instructional support:				
Pupil support	331,764			(331,764)
Instructional staff	256,597			(256,597)
School administration	1,135,843			(1,135,843)
Non-instructional support:				
General administration	328,674	15,713		(312,961)
Business services	323,207	14,262		(308,945)
Operations and maintenance	1,253,536	26,906		(1,226,630)
Transportation	751,256	86,423		(664,833)
Other non-instructional support	103,921			(103,921)
Community services	37,701	3,775	51,834	17,908
Food services	765,977	308,846	449,904	(7,227)
Athletics	361,542	80,666	5,500	(275,376)
Interest on long-term debt	145,333			(145,333)
Capital outlay	81,968			(81,968)
Depreciation (unallocated)	811,004			(811,004)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 16,429,262	\$ 703,057	\$ 2,187,711	\$ (13,538,494)

GENERAL REVENUES

Property taxes, levied for general operations	\$ 2,257,122
Property taxes, levied for debt service	587,405
Property taxes, levied for building and site improvements	634,721
State of Michigan aid, unrestricted	9,980,435
Interest and investment earnings	107,671
Other	56,786

TOTAL GENERAL REVENUES \$ 13,624,140

SPECIAL ITEMS:

Proceeds from sale of property	\$ 601,302
Termination benefits expense	(314,534)

CHANGE IN NET ASSETS 372,414

NET ASSETS - BEGINNING OF YEAR \$ 6,305,391

NET ASSETS - ENDING \$ 6,677,805

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS
GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2006

	GENERAL	BUILDING AND SITE SINKING FUND	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and deposits	\$ 1,985,029	\$ 682,450	\$ 193,174	\$ 2,860,653
Investments	6,888	8,287	8,895	24,070
Accounts receivable	57,637	50,000	7,875	115,512
Other deposits			33,000	33,000
Prepaid expenses	153		6,635	6,788
Due from other funds	21,174			21,174
Due from other governmental units	2,090,616			2,090,616
Inventory			11,844	11,844
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 4,161,497</u>	<u>\$ 740,737</u>	<u>\$ 261,423</u>	<u>\$ 5,163,657</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 646,669	\$ 134,453	\$ 4,712	\$ 785,834
Accrued payroll	861,260		25,157	886,417
Accrued interest	71,936			71,936
Deferred revenue	34,607			34,607
Due to other funds			21,174	21,174
Note payable - tax anticipation	2,400,000			2,400,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 4,014,472</u>	<u>\$ 134,453</u>	<u>\$ 51,043</u>	<u>\$ 4,199,968</u>
Fund Balances				
Reserved	\$	\$ 606,284	\$ 203,994	\$ 810,278
Unreserved, undesignated	147,025		6,386	153,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 147,025</u>	<u>\$ 606,284</u>	<u>\$ 210,380</u>	<u>\$ 963,689</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,161,497</u>	<u>\$ 740,737</u>	<u>\$ 261,423</u>	<u>\$ 5,163,657</u>

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES		\$	963,689
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of capital assets	\$	20,193,478	
Accumulated depreciation		<u>(10,250,491)</u>	
			9,942,987
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(3,445,507)
Notes and leases			(221,195)
Compensated absences			(208,270)
Early retirement incentive			(314,534)
Accrued interest on long-term liabilities is not included as a liability in governmental funds, it is recorded when paid			<u>(39,365)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>6,677,805</u></u>

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL	BUILDING AND SITE SINKING FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local sources	\$ 2,625,167	\$ 685,626	\$ 1,002,887	\$ 4,313,680
State sources	11,082,800		61,645	11,144,445
Federal sources	606,305		401,996	1,008,301
Other sources	<u>30,465</u>	<u>3,908</u>	<u>14,109</u>	<u>48,482</u>
TOTAL REVENUES	<u>\$ 14,344,737</u>	<u>\$ 689,534</u>	<u>\$ 1,480,637</u>	<u>\$ 16,514,908</u>
EXPENDITURES				
Basic Instruction	\$ 7,566,840	\$	\$	\$ 7,566,840
Added needs	2,191,759			2,191,759
Pupil support	331,764			331,764
Instructional staff support	256,597			256,597
School administration	1,135,843			1,135,843
General administration	328,674			328,674
Business services	314,226	6,415		320,641
Operations and maintenance	1,253,536			1,253,536
Transportation	751,256			751,256
Other support services	103,921			103,921
Community services	37,701			37,701
Food service			765,977	765,977
Athletics			361,542	361,542
Capital outlay	192,369	718,963	57,897	969,229
Debt services				
Principal			429,469	429,469
Interest			148,516	148,516
TOTAL EXPENDITURES	<u>\$ 14,464,486</u>	<u>\$ 725,378</u>	<u>\$ 1,763,401</u>	<u>\$ 16,953,265</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (119,749)</u>	<u>\$ (35,844)</u>	<u>\$ (282,764)</u>	<u>\$ (438,357)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$	\$	\$ 274,439	\$ 274,439
Capital lease proceeds	6,900			6,900
Loan proceeds	132,024			132,024
Proceeds from sale of assets	551,302	50,000		601,302
Payments on capital leases	(34,055)			(34,055)
Payments on loans	(62,880)			(62,880)
Operating transfers out	<u>(274,439)</u>			<u>(274,439)</u>
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>\$ 318,852</u>	<u>\$ 50,000</u>	<u>\$ 274,439</u>	<u>\$ 643,291</u>
NET CHANGE IN FUND BALANCES	\$ 199,103	\$ 14,156	\$ (8,325)	\$ 204,934
FUND BALANCES - BEGINNING	<u>(52,078)</u>	<u>592,128</u>	<u>218,705</u>	<u>758,755</u>
FUND BALANCES - ENDING	<u>\$ 147,025</u>	<u>\$ 606,284</u>	<u>\$ 210,380</u>	<u>\$ 963,689</u>

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 204,934

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts were:

Depreciation expense	(811,004)
Capital outlay	887,261

Repayment of long-term debt is reported as an expenditure in governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. In the current year, these amounts consist of:

Repayment of long-term obligations	526,226
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Proceeds from notes and capital leases are recorded as other financing sources in the governmental funds, but not in the statement of activities	(138,924)
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Some items reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. These activities consist of:

Early retirement incentive expense	\$ (314,534)	
Decrease in accrued compensated absences	17,660	
Decrease in accrued interest payable on long-term debt	<u>795</u>	
		(296,079)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 372,414</u>
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The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	AGENCY FUND - STUDENT ACTIVITIES
ASSETS	
Cash	<u>\$ 119,160</u>
LIABILITIES	
Due to student groups	<u>\$ 119,160</u>

The accompanying notes are an integral part of these financial statements.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hillsdale Community Schools is a K-12 public school district with an enrollment of approximately 1,850 students. The School District operates under a locally elected seven-member Board of Education, and a superintendent heads the administrative staff.

The accounting policies of Hillsdale Community Schools (the "School District") conform to accounting principles generally accepted in the United States of American (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The following is a summary of significant accounting policies used by Hillsdale Community Schools.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt, or the levying of taxes. The School District has no component units.

GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS

Government -Wide Financial Statements

The statement of net assets and the statement of activities (the government -wide statements) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Interfund activity has been eliminated in the preparation of the government -wide financial statements.

The government -wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the School District and the program revenues that support them. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, State Aid, and other items not properly included among program revenues are reported as general revenues. This includes all taxes, interest, and unrestricted State Aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the School District.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The School District utilized governmental and fiduciary funds.

The governmental fund financial statements present the School District's individual major funds and aggregated nonmajor funds. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the School District are:

General Fund - The General Fund is used to account for money or other resources provided to the School District to support the educational programs and general operations of the School District.

Building and Site Sinking Fund - The Building and Site Sinking Fund is used to account for the collection of local property taxes restricted for the use of building and site improvements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government -wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary funds also use the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS

Bank Deposits - Cash and deposits are considered to be cash on hand, demand deposits, and short-term investments with maturity of three months or less.

Inventories - Food service inventories are stated at cost. Federal government food commodity inventories are stated at their assigned U.S.D.A. value. All inventories are charged to expenditures when consumed.

Capital Assets - General Capital Assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All Capital Assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. Improvements are capitalized, and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The School District has a bus road at one of its elementary schools and reports it as an infrastructure type asset.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Life</u>
Buildings and improvements	20 - 50 years
Buses and other vehicles	5 - 20 years
Furniture and other equipment	5 - 20 years
Infrastructure	20 years

Compensated Absences (Personal Leave) - It is the School District's policy to permit employees to accumulate earned but unused personal leave benefits. Personal leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation, retirement, or death.

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bonds payable are recorded net of the applicable bond premium or discount. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

ASSETS, LIABILITIES, AND NET ASSETS (CONCLUDED)

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund receivables, payables, and operating transfers of governmental funds have been eliminated in the government-wide financial statement presentation.

Restricted Resources - It is the School District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Uniform Budgeting Act and entails the preparation of budgetary documents within an established timetable. The level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education. All annual appropriations lapse at fiscal year end.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONCLUDED)

During the year, the School District was in violation of the Uniform Budgeting Act. Expenditures were incurred in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	Support Services - Business	<u>\$ 303,194</u>	<u>\$ 314,226</u>	<u>\$ 11,032</u>

NOTE 3: CASH, DEPOSITS, AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the School District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The School District's deposits and investments are in accordance with statutory authority.

Cash and Deposits

The Federal Deposit Insurance Corporation (FDIC) provides protection of the School District's deposits. At June 30, 2006, the carrying amount of the School District's deposits was \$2,979,813 and the bank balance was \$3,138,932. Of the bank balance, \$208,120 was covered by federal depository insurance and \$2,930,812 was uninsured.

Investments

As of June 30, 2006, the School District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
Michigan Liquid Asset Fund Plus – MAX Series (MIMAX)	\$ 1,419
Federated – Automated Cash Management Trust SS (ACMXX)	<u>22,651</u>
	<u>\$ 24,070</u>

Investment Credit Risk - As noted above, the School District invests its funds as authorized by State law. The School District has no investment policy that would further limit its investment choices. As of June 30, 2006, the School District's investments in MIMAX and ACMXX were rated AAA by Standard & Poor's rating service.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 3: CASH, DEPOSITS, AND INVESTMENTS (CONCLUDED)

The School District's cash, deposits and investments are recorded in the following areas:

	<u>Cash and Deposits</u>	<u>Investments</u>
Governmental Activities	\$2,860,653	\$ 24,070
Fiduciary Fund	<u>119,160</u>	<u> </u>
	<u>\$2,979,813</u>	<u>\$ 24,070</u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables related to the School District at June 30, 2006:

Due to General Fund from:	
Food Service	<u>\$ 21,174</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service, or is otherwise obligated to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE 5: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the School District to use for operating are classified as interfund transfers. For the purpose of statement of activities, all interfund transfers between individual governmental funds have been eliminated.

	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$	\$ 274,439
Athletic Fund	<u>\$ 274,439</u>	<u> </u>
	<u>\$ 274,439</u>	<u>\$ 274,439</u>

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance <u>7/1/05</u>	<u>Additions</u>	Disposals / <u>Adjustments</u>	Balance <u>6/30/06</u>
Assets not being depreciated :				
Land	\$ 50,740	\$	\$	\$ 50,740
Assets being depreciated:				
Buildings & improvements	13,391,447	626,077		14,017,524
Furniture & equipment	5,022,868	129,160		5,152,028
Vehicles	664,715	132,024	45,385	751,354
Infrastructure	<u>221,832</u>	<u></u>	<u></u>	<u>221,832</u>
Total	<u>\$ 19,351,602</u>	<u>\$ 887,261</u>	<u>\$ 45,385</u>	<u>\$ 20,193,478</u>
Accumulated depreciation for:				
Buildings & improvements	\$ 5,857,617	\$ 430,148	\$	\$ 6,287,765
Furniture & equipment	3,071,381	298,300		3,369,681
Vehicles	511,507	71,464	43,385	537,586
Infrastructure	<u>44,367</u>	<u>11,092</u>	<u></u>	<u>55,459</u>
Total	<u>\$ 9,484,872</u>	<u>\$ 811,004</u>	<u>\$ 43,385</u>	<u>\$ 10,250,491</u>
Net capital assets	<u>\$ 9,866,730</u>	<u>\$ 76,257</u>	<u>\$</u>	<u>\$ 9,936,087</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7: SHORT-TERM NOTES

In August, 2005, the School District issued a short-term State School Aid Anticipation Note in the amount of \$2,400,000 for the purpose of funding operating expenditures until the 2006 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$2,400,000 at June 30, 2006, is reported in the General Fund under the caption note payable-tax anticipation. The outstanding balance is expected to be refinanced. See Note 18.

NOTE 8: LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and improvements and the acquisition of certain equipment. Other long-term obligations include retirement buy-outs.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8: LONG-TERM DEBT (CONTINUED)

Long-term obligation activity can be summarized as follows:

	Balance <u>7/01/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/06</u>
Bonds	\$3,874,976	\$	\$ 429,469	\$3,445,507
Capital leases	51,027	6,900	33,877	24,050
Notes	128,001	132,024	62,880	197,145
Early retirement incentive		314,534		314,534
Compensated absences	<u>225,930</u>	<u></u>	<u>17,660</u>	<u>208,270</u>
	<u>\$4,279,934</u>	<u>\$ 453,458</u>	<u>\$ 543,886</u>	<u>\$4,189,506</u>

At June 30, 2006, long-term debt consisted of the following individual issues:

\$4,750,000 – 2002 School Building and Site Bonds, due in annual installments of \$255,000 to \$630,000, bearing interest at a rate of 3.97%, through May 1, 2012	\$3,330,000
1998 School Improvement Bonds (Durant Non-Plaintiff Resolution), annual installments of \$13,000 to \$20,000 bearing interest at 4.76%, through May 15, 2013	115,507
Note payable, Fifth Third Bank, secured by buses, payable in annual installments of \$35,000 to \$37,000, bearing interest at a rate of 5.6%, through July 20, 2006	37,621
Note payable, Fifth Third Bank, secured by buses, payable in annual installments of \$30,084, bearing interest at a rate of 2.82%, through January 22, 2007	27,500
Note payable, County National Bank, secured by buses, payable beginning with a one time principal and interest payment of \$19,548, due July 15, 2006 and monthly payments thereafter of \$3,910, bearing interest at a rate of 4.15%, through February 9, 2009	132,024
Capital lease obligation, Dell Company, secured by computers, payable in annual installments of \$16,547, bearing interest at a rate of 7.38%, through December 31, 2007	18,470
Capital lease obligation, Chesterfield Financial Corporation, secured by equipment, payable in monthly installments of \$214, with an imputed interest rate of 7%, through November 10, 2008	5,580

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8: LONG-TERM DEBT (CONCLUDED)

Accrued retirement benefits:

Compensated absences	\$ 208,270
Early retirement	<u>314,534</u>

TOTAL LONG-TERM DEBT	<u>\$4,189,506</u>
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Annual debt service requirements to maturity for the above debt obligations are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 703,934	\$ 138,544	\$ 842,478
2008	705,175	133,633	838,808
2009	683,146	95,614	778,760
2010	591,405	73,632	665,037
2011	641,948	50,614	692,562
2012 – 2016	<u>655,628</u>	<u>26,258</u>	<u>681,886</u>
Total	\$ 3,981,236	\$ 518,295	\$ 4,499,531
Compensated absences	<u>208,270</u>		<u>208,270</u>
	<u>\$ 4,189,506</u>	<u>\$ 518,295</u>	<u>\$ 4,707,801</u>

1998 School Improvement Bond Issue

Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$13,736 to \$24,476 associated with this Bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any School District debt levy or utilization of any other School District financial resources.

2002 School Building and Site Bonds

The bonds were authorized at an election on March 11, 2002, for the purpose of remodeling and re-equipping the high school and middle school, including boiler replacement and energy conservation improvements. The bonds are direct obligations and pledge the full faith, credit, and resources of the School District for payment of the principal and interest thereon, and will be payable from ad valorem taxes.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 9: PROPERTY TAXES

The School District levies its property taxes on December 1 on the taxable valuation of property located in the School District as of the preceding December 31. Various municipalities collect the property taxes and remit them to the School District through February. The County purchases the delinquent real property taxes of the School District. The delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The total levy for 2005 was 18.00 mills on non-homestead valuation for operational purposes and 1.85 mills on total valuation for debt retirement. A building and site sinking fund is also maintained by the School District, which levies 2.00 mills on total valuation. The 2005 taxable valuation of the School District totaled approximately \$314,800,000.

NOTE 10: DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and requirement supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive; P. O. Box 30673; Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005, and 16.34 percent for the remainder of the year. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the year ended June 30, 2006 was approximately \$1,362,000.

Post-Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

NOTE 11: RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (Workers' Compensation), as well as medical benefits to employees. The School District has purchased commercial insurance for medical benefits and participates in the MASB-SEG Property/Casualty risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. There has been no significant reduction in coverage, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 11: RISK MANAGEMENT (CONCLUDED)

The MASB-SEG Property/Casualty Pool, Inc. is a public entity risk pool (self-insurance pool) which provides for reinsurance by various insurance companies at various levels, depending on coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Unemployment Taxes

The School District is a reimbursing employer to the Michigan Unemployment Agency, and as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or not filed.

Grant Programs

The School District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2006 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

NOTE 13: SINKING FUNDS

The School District's Building and Site Capital Project Fund records capital project activities funded with Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

NOTE 14: FIDUCIARY FUND

The following is a summary of cash receipts, disbursements, and adjustments of the School District's student activity accounts for the year ended June 30, 2006:

Beginning balance – July 1, 2005	\$ 104,585
Receipts	82,209
Disbursements	<u>67,634</u>
Ending balance – June 30, 2006	<u>\$ 119,160</u>

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 15: FUND FINANCIAL STATEMENTS RESERVED FUND BALANCE

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally identified for specific purposes.

Reserves :

School Services Fund – reserved for inventory	\$ 11,844
Building and Site Sinking Fund – reserves to be used for school improvements	606,284
Debt Retirement Fund – reserve to be used for retiring school debt approved by the voters	<u>192,150</u>
	<u>\$ 810,278</u>

NOTE 16: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source, precludes their use for unrestricted purposes.

The following are net asset restrictions as of June 30, 2006:

Governmental Activities

Restricted for debt service	<u>\$ 192,150</u>
-----------------------------	-------------------

NOTE 17: SPECIAL ITEM

Statement of Activities

Proceeds from Sale of Property

During the year, the School District sold property that required a partial demolition of an existing building. The original cost value and accumulated depreciation associated with the part of the building demolished was not readily determinable, therefore the total proceeds from the sale were reported as gain on sale.

Termination Benefits Expense

During the year the School District entered into an early retirement incentive agreement with eleven teachers. The agreement requires annual payments of \$10,000 for three years to the retired teachers beginning July 15, 2006. The expense of \$314,534 is reported in the Statement of Activities, and is measured at the discounted present value of future payments using a discount rate of 5%.

HILLSDALE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 18: OPERATING LEASE

The School District leases a building for its Adult and Alternative Education activities. The lease agreement is on an annual basis. The total annual lease expense for the year was \$14,000.

NOTE 18: SUBSEQUENT EVENTS

After the year ended June 30, 2006, the following subsequent event occurred:

Additional Borrowing - In August 2006, the School District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan totaled \$2,400,000 and future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

REQUIRED SUPPLEMENTAL INFORMATION

HILLSDALE COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
REVENUES			
Local sources	\$ 2,683,706	\$ 2,621,947	\$ 2,625,167
State sources	11,161,303	11,059,114	11,082,800
Federal sources	613,858	647,904	606,305
Other sources	<u>5,000</u>	<u>24,463</u>	<u>30,465</u>
TOTAL REVENUES	<u>\$ 14,463,867</u>	<u>\$ 14,353,428</u>	<u>\$ 14,344,737</u>
EXPENDITURES			
Instruction:			
Basic programs	\$ 7,359,754	\$ 7,639,243	\$ 7,566,840
Added needs	2,431,460	2,218,272	2,191,759
Instructional support:			
Pupil support	337,295	344,194	331,764
Instructional staff	305,855	288,585	256,597
School administration	1,169,092	1,155,039	1,135,843
Non-instructional support:			
General administration	331,498	346,267	328,674
Business services	262,990	303,194	314,226
Operations and maintenance	1,260,731	1,291,693	1,253,536
Transportation	734,332	757,720	751,256
Other non-instructional support	139,365	126,851	103,921
Community services	34,473	41,632	37,701
Capital outlay	<u>20,262</u>	<u>188,157</u>	<u>192,369</u>
TOTAL EXPENDITURES	<u>\$ 14,387,107</u>	<u>\$ 14,700,847</u>	<u>\$ 14,464,486</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 76,760</u>	<u>\$ (347,419)</u>	<u>\$ (119,749)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 22,000	\$ 12,000	\$
Capital lease proceeds			6,900
Loan proceeds		132,024	132,024
Proceeds from sale of assets	230,500	600,631	551,302
Payments on capital leases	(60,973)		(34,055)
Payments on loans		(62,880)	(62,880)
Operating transfers out	<u>(274,315)</u>	<u>(274,315)</u>	<u>(274,439)</u>
TOTAL OTHER FINANCING SOURCES AND (USES)	<u>\$ (82,788)</u>	<u>\$ 407,460</u>	<u>\$ 318,852</u>
NET CHANGE IN FUND BALANCES	\$ (6,028)	\$ 60,041	\$ 199,103
FUND BALANCES - BEGINNING	<u>\$ (52,078)</u>	<u>\$ (52,078)</u>	<u>\$ (52,078)</u>
FUND BALANCES - ENDING	<u><u>\$ (58,106)</u></u>	<u><u>\$ 7,963</u></u>	<u><u>\$ 147,025</u></u>

ADDITIONAL INFORMATION

HILLSDALE COMMUNITY SCHOOLS

COMBINING BALANCE SHEETS -
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Debt Service Fund	Food Service Fund	Athletics Fund	2002 Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash	\$ 192,150	\$ 720	\$ 304	\$	\$ 193,174
Investments		8,895			8,895
Due from other governments		6,635			6,635
Accounts receivable		3,295	4,580		7,875
Other deposits		33,000			33,000
Inventory		11,844			11,844
TOTAL ASSETS	<u>\$ 192,150</u>	<u>\$ 64,389</u>	<u>\$ 4,884</u>	<u>\$</u>	<u>\$ 261,423</u>
LIABILITIES					
Accounts payable	\$	\$ 4,712	\$	\$	\$ 4,712
Salaries payable		20,670	4,487		25,157
Due to other funds		21,174			21,174
TOTAL LIABILITIES	<u>\$</u>	<u>\$ 46,556</u>	<u>\$ 4,487</u>	<u>\$</u>	<u>\$ 51,043</u>
FUND BALANCES					
Reserved	\$ 192,150	\$ 11,844	\$	\$	\$ 203,994
Unreserved, undesignated		5,989	397		6,386
Total Fund Balances	<u>\$ 192,150</u>	<u>\$ 17,833</u>	<u>\$ 397</u>	<u>\$</u>	<u>\$ 210,380</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 192,150</u>	<u>\$ 64,389</u>	<u>\$ 4,884</u>	<u>\$</u>	<u>\$ 261,423</u>

HILLSDALE COMMUNITY SCHOOLS

COMBINING BALANCE SHEETS -
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

HILLSDALE COMMUNITY SCHOOLS

COMBINING STATEMENTS OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	Debt Service Fund	Food Service Fund	Athletics Fund	2002 Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUE					
Local sources	\$ 587,405	\$ 329,315	\$ 86,167	\$	\$ 1,002,887
State sources	13,737	47,908			61,645
Federal sources		401,996			401,996
Other	<u>12,464</u>	<u></u>	<u></u>	<u>1,645</u>	<u>14,109</u>
TOTAL REVENUE	<u>\$ 613,606</u>	<u>\$ 779,219</u>	<u>\$ 86,167</u>	<u>\$ 1,645</u>	<u>\$ 1,480,637</u>
EXPENDITURES					
Salaries and benefits	\$	\$ 332,874	\$ 263,040	\$	\$ 595,914
Supplies & materials		433,103	98,502		531,605
Capital outlay				57,897	57,897
Debt principal	429,469				429,469
Debt interest and other	<u>148,516</u>	<u></u>	<u></u>	<u></u>	<u>148,516</u>
TOTAL EXPENDITURES	<u>\$ 577,985</u>	<u>\$ 765,977</u>	<u>\$ 361,542</u>	<u>\$ 57,897</u>	<u>\$ 1,763,401</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 35,621</u>	<u>\$ 13,242</u>	<u>\$ (275,375)</u>	<u>\$ (56,252)</u>	<u>\$ (282,764)</u>
OTHER FINANCING SOURCES					
Transfers in	<u>\$</u>	<u>\$</u>	<u>\$ 274,439</u>	<u>\$</u>	<u>\$ 274,439</u>
NET CHANGE IN FUND BALANCE	\$ 35,621	\$ 13,242	\$ (936)	\$ (56,252)	\$ (8,325)
FUND BALANCE - BEGINNING	<u>156,529</u>	<u>4,591</u>	<u>1,333</u>	<u>56,252</u>	<u>218,705</u>
FUND BALANCE - ENDING	<u><u>\$ 192,150</u></u>	<u><u>\$ 17,833</u></u>	<u><u>\$ 397</u></u>	<u><u>\$</u></u>	<u><u>\$ 210,380</u></u>

HILLSDALE COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

	FEDERAL CDFA NUMBER	APPROVED GRANT AWARD AMOUNT	(ACCRUED) DEFERRED REVENUE 07/01/05	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS- CASH BASIS	ACCRUED (DEFERRED) REVENUE 06/30/06
<u>U.S. DEPARTMENT OF EDUCATION</u>							
<i>Passed through M.D.E.</i>							
* Title I - Educationally Deprived							
061530-0506 Regular 2005-06	84.010	\$ 404,432	\$	\$	\$ 374,283	\$ 317,986	\$ 56,297
051530-0506 Carryover 2005-06	84.010	81,309			81,309	81,309	
051530-0405 Regular 2004-05	84.010	320,020	(46,447)	320,020		46,447	
041530-0405 Carryover 2004-05	84.010	27,724	(15,246)			15,246	
		<u>\$ 833,485</u>	<u>\$ (61,693)</u>	<u>\$ 320,020</u>	<u>\$ 455,592</u>	<u>\$ 460,988</u>	<u>\$ 56,297</u>
Title II-A Improving Teacher Quality							
060520-0506 Regular 2005-06	84.367	\$ 126,151	\$	\$	\$ 113,307	\$ 99,678	\$ 13,629
050520-0506 Carryover 2005-06	84.367	4,951			4,951	4,951	
050520-0405 Regular 2004-05	84.367	120,524	(30,622)	120,524		30,622	
		<u>\$ 251,626</u>	<u>\$ (30,622)</u>	<u>\$ 120,524</u>	<u>\$ 118,258</u>	<u>\$ 135,251</u>	<u>\$ 13,629</u>
Title II-D Enhancing Education/Tech							
064290-0506 Regular 2005-06	84.318	\$ 7,545	\$	\$	\$ 4,603	\$ 3,963	\$ 640
054290-0506 Carryover 2005-06	84.318	250			250	250	
044290-0405 Regular 2004-05	84.318	9,949	(188)	9,947	2	190	
		<u>\$ 17,744</u>	<u>\$ (188)</u>	<u>\$ 9,947</u>	<u>\$ 4,855</u>	<u>\$ 4,403</u>	<u>\$ 640</u>
Title V Innovative Programs							
060250-0506 Regular 2005-06	84.298	\$ 6,552	\$	\$	\$ 4,579	\$ 4,393	\$ 186
050250-0506 Carryover 2005-06	84.298	779			779	779	
050250-0405 Regular 2004-05	84.298	4,976	(294)	4,976		294	
		<u>\$ 12,307</u>	<u>\$ (294)</u>	<u>\$ 4,976</u>	<u>\$ 5,358</u>	<u>\$ 5,466</u>	<u>\$ 186</u>

The accompanying notes are an integral part of this schedule.

HILLSDALE COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

	FEDERAL CDFA NUMBER	APPROVED GRANT AWARD AMOUNT	(ACCRUED) DEFERRED REVENUE 07/01/05	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS- CASH BASIS	ACCRUED (DEFERRED) REVENUE 06/30/06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>							
Handicapped Preschool Program 060440 SPSR Regular	84.027	\$ 4,130	\$	\$	\$ 3,017	\$ 3,017	\$
Katrina FY 2006 061420 Regular	84.938C	\$ 413	\$	\$	\$ 413	\$ 413	\$
<i>Total passed through M.D.E.</i>		\$ 1,119,705	\$ (92,797)	\$ 455,467	\$ 587,493	\$ 609,538	\$ 70,752
<i>Passed through I.S.D.</i>							
Drug Free Schools Supplement Grant 022860DRUG0506	84.186	\$ 233	\$	\$	\$ 233	\$ 233	\$
TOTAL U.S. DEPARTMENT OF EDUCATION		\$ 1,119,938	\$ (92,797)	\$ 455,467	\$ 587,726	\$ 609,771	\$ 70,752
<u>U.S. DEPARTMENT OF AGRICULTURE</u>							
<i>Passed through M.D.E.</i>							
* National School Lunch - Breakfast Breakfast - 2005-06	10.553	\$ 73,247	\$	\$	\$ 73,247	\$ 73,247	\$
* National School Lunch							
051950 Section 4 lunches	10.555	\$ 6,912	\$	\$	\$ 6,912	\$ 6,912	\$
051960 Section 11 free and reduced	10.555	37,324			37,324	37,324	
061950 Section 4 lunches	10.555	39,273			39,273	39,273	
061960 Section 11 free and reduced	10.555	209,764			209,764	209,764	
		\$ 293,273	\$	\$	\$ 293,273	\$ 293,273	\$

The accompanying notes are an integral part of this schedule.

HILLSDALE COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

	FEDERAL CDFA NUMBER	APPROVED GRANT AWARD AMOUNT	(ACCRUED) DEFERRED REVENUE 07/01/05	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS- CASH BASIS	ACCRUED (DEFERRED) REVENUE 06/30/06
<u>U.S. DEPARTMENT OF AGRICULTURE (Continued)</u>							
* Summer Food Service							
50900	10.559	\$ 1,208	\$	\$	\$ 1,208	\$ 1,208	\$
51900	10.559	<u>1,260</u>	<u></u>	<u></u>	<u>1,260</u>	<u>126</u>	<u>1,134</u>
		<u>\$ 2,468</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,468</u>	<u>\$ 1,334</u>	<u>\$ 1,134</u>
National School Lunch							
Entitlements Commodities	10.550	\$ 31,005	\$	\$	\$ 31,005	\$ 31,005	\$
Bonus Commodities	10.550	<u>2,004</u>	<u></u>	<u></u>	<u>2,004</u>	<u>2,004</u>	<u></u>
		<u>\$ 33,009</u>	<u>\$</u>	<u>\$</u>	<u>\$ 33,009</u>	<u>\$ 33,009</u>	<u>\$</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>\$ 401,997</u>	<u>\$</u>	<u>\$</u>	<u>\$ 401,997</u>	<u>\$ 400,863</u>	<u>\$ 1,134</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>							
<i>Passed through Michigan State Police</i>							
State Homeland Security Grant	97.004	<u>\$ 7,843</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,843</u>	<u>\$ 7,843</u>	<u>\$</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>							
<i>Passed through I.S.D.</i>							
Medicaid Administrative Outreach	93.778	<u>\$ 10,735</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,735</u>	<u>\$ 10,735</u>	<u>\$</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$ 1,540,513</u></u>	<u><u>\$ (92,797)</u></u>	<u><u>\$ 455,467</u></u>	<u><u>\$ 1,008,301</u></u>	<u><u>\$ 1,029,212</u></u>	<u><u>\$ 71,886</u></u>

The accompanying notes are an integral part of this schedule.

HILLSDALE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

FEDERAL	APPROVED	(ACCRUED)			CURRENT	ACCRUED
CDFA	GRANT	DEFERRED	(MEMO ONLY)	CURRENT	YEAR	(DEFERRED)
NUMBER	AWARD	REVENUE	PRIOR YEAR	YEAR	RECEIPTS-	REVENUE
	AMOUNT	07/01/05	EXPENDITURES	EXPENDITURES	CASH BASIS	06/30/06

The accompanying notes are an integral part of this schedule.

HILLSDALE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

JUNE 30, 2006

NOTE 1: *Designates a major program.

NOTE 2: The schedule includes all Federal financial assistance and related expenditures that are reported as passed through the State of Michigan and the local intermediate school district. The schedule was prepared using the same applicable, significant policies as used in the preparation of the general purpose financial statements.

NOTE 3: The School District had two Type A programs; i.e., programs with expenditures equal to or greater than \$300,000. Based on Section .520(c)(1) of the OMB Circular A-133, the two Type A programs were assessed at low risk. There were no high risk Type B programs identified in accordance with Section .520(d)(1) of the OMB Circular A-133.

The federal programs identified as a Type A programs subject to testing as a major program was as follows:

Child Nutrition Cluster
Title I – Part A

The expenditures of the major programs equal \$824,580, which exceeds the fifty percent coverage rule.

NOTE 4: Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. This schedule reconciles with the R7120, except for the State School Lunch allocations, which are not federal funds.

NOTE 5: The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with this schedule for U.S.D.A. donated food commodities and are reported in the Cash Receipts column.

NOTE 6: Expenditures include spoilage.

HILLSDALE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Reportable condition(s) identified that are Not considered to be material weaknesses?	_____ Yes	<u> X </u> No	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Reportable condition(s) identified that are Not considered to be material weaknesses?	_____ Yes	<u> X </u> No	
Type of auditors' report issued:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_____ Yes	<u> X </u> No	

Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	
10.559	
84.010	Title I – Part A

Dollar threshold used to distinguish between Type A and
Type B programs:

\$300,000

Auditee qualified as low-risk auditee?	_____ Yes	<u> X </u> No
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HILLSDALE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Section II - Financial Statement Findings

No matters were reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

OTHER REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2006, which collectively comprise the Hillsdale Community School's basic financial statements and have issued our report thereon dated October 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving internal controls over financial reporting that we have reported to the management of Hillsdale Community Schools in a separate letter dated October 2, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Education, management and federal and state awarding agencies. It should not be used by anyone other than these specified parties.

Certified Public Accountants

Hillsdale, Michigan
October 2, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Compliance

We have audited the compliance of Hillsdale Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion the School District's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Hillsdale Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Education, federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

Hillsdale, Michigan
October 2, 2006

AUDITOR'S COMMENTS AND RECOMMENDATIONS

Board of Education
Hillsdale Community Schools
30 S. Norwood Street
Hillsdale, MI 49242

We have recently completed our audit of the records of Hillsdale Community Schools as of and for the year ended June 30, 2006. In connection with the audit, we became aware of matters that are opportunities for strengthening management's control and operating efficiency. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

Student Activity Funds

The balances in each of the student activity funds are not reconciled to the Student Activity bank statement on a timely basis. Untimely reconciliations could result in the activity not really knowing if the balance in their fund is correct.

We recommend, that each Student Activity secretary maintain a summary of each activity fund balance on a monthly basis. These summaries, then, should be given to the business person in charge of the Student Activity bank account to reconcile any differences. At the end of each month, the bank account should agree with the total of student activity fund balances.

Expenditures over Appropriations

During the year the School District was in violation of the Uniform Budgeting Act. Expenditures were over appropriations by \$11,000 in the Support Services – Business function.

We recommend, the School District revise its budget as necessary to avoid further violation occurrences.

We believe that implementation of these recommendations will provide the School District with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Hillsdale, Michigan
October 2, 2006